The MORTGAGE BANKER

VOLUME I—No. 3 MORTGAGE BANKERS ASSOCIATION OF AMERICA ORGANIZED 1914 FEBRUARY 1, 1939

CREATIVE PROPERTY MANAGEMENT

Managing Real Estate the Right Way Calls for the Same Creative Talents That Spell Success in Other Fields

By C. A. MULLENIX

CREATIVE management, like most other man-made institutions, is usually the reflection of one man's ideals and knowledge, based on experience.

His ability to surround himself with men of proven honesty and experience, and his ability to coordinate these varied experiences into a homogeneous, loyal organization, with team work striving for his ideals, makes for a successful management department.

My viewpoint of management comes thru the operation of a large management company which, for several years, has managed property in Cleveland, and at the present time is representing several insurance companies, banks and individuals. In addition, my viewpoint is influenced because of my connection with insurance companies as loan correspondent in the Ohio district.

The first essential in the management of income property is an organization with the best possible personnel, equipped with a thorough understanding of the fundamentals of property management, including the ability to accomplish:

(1) Stabilized occupancy resulting from the proper placing of tenants according to their requirements and rent paying ability.

(2) Securing higher rents for property because of the proper selection of tenants who can best pay the maximum rent in each individual case.

(3) Greater purchasing power because of quantity buying.

(4) Expert engineering service which is not available to the individual property because of the cost.

(5) Integrity in handling funds in trust for others.

(6) The successful management company must be financially responsible if it is to secure the confidence of its clients, and prospective clients.

(7) A company managing property for others should segregate its own cash from the cash of its clients, and should not under any circumstances enter into any thought of speculative transactions.

Creative property management no longer means just renting property for what it will bring—doing anything to produce some income. There is a systematic scientific basis to follow and C. A. Mullenix, who has had a broad successful experience in this field of mortgage and real estate activity, explains the method he has used.

(8) The management company should surround itself with every possible safeguard to protect the interests of its clients.

(9) Every officer or employee of the management company who is responsible for the handling of money should be under adequate bond.

(10) It must be borne in mind that a company qualified to manage for others, should at the same time be able to show that it can manage its own affairs, and it should not only have a segregated cash account for its clients, but should have a cushion of cash invested in its business to protect its clients against contingencies which might arise.

(11) To be successful the manager must have the full cooperation of all real estate brokers in the district in which he manages property. Several years ago we adopted the policy of paying the full real estate board rates of commission to outside brokers for placing tenants in properties managed by our Company, and the result has been that we have had fine cooperation and can always expect that the brokers will in turn give us the "breaks" on prospective tenants.

The management of real estate does not mean renting space at any price to produce an income and provide a percentage for the services of the manager, but rather to produce the maximum net income after giving full consideration to the various factors entering into the problem. These factors include the following:

(1) Rentability and best use.
(2) Cost of operation.
(3) Credit and collections.
(4) Rehabilitation and maintenance to provide the maximum economic return.
(5) Taxes.
(6) Insurance.
(7) Investment.

Taking up these factors separately, the first question is, "what is the best rental use of a property, and how can the property in its existing state and location be made to fit the best use according to the judgment of the manager?"

A single or two-family house should be rehabilitated consistent with available occupancy and in accordance with the amount of rent to be obtained, or the logical sale price in the neighborhood. I have observed the rehabilitation of houses being overdone without any

(Continued on next page)

thought being given to the economic possibilities after the work has been done.

Apartment houses can usually be used only as apartment houses, and do not lend themselves generally to remodeling for a different type of use, so that here again the manager must determine from the facts as to whether the best use of the property is in the type of suites as they exist or in a different type of suite to meet changing neighborhood conditions, bearing in mind at all times the availability of tenants and their rent paying ability. The manager must determine what type suite will bring the greatest total income at the lowest comparative operating expense.

There are many two-story combination commercial and apartment buildings, including stores with apartments above and to the rear. It is found in nearly all cases the apartments above and to the rear of stores in this type of building are uneconomic in that an analysis of operating costs indicates a loss as a result of occupancy of such suites. Usually the operating cost, including repairs, exceeds the annual income. This presents an entirely different problem of producing net income and we have found it to advantage to discontinue the rental of many apartments in this type building, and to seek commercial tenants to occupy the upper floor and rear space. Total rent is usually somewhat less, but the operating costs are insignificant, producing a very substantial percentage of increase in net income.

The subject of rentability and best use is one requiring a great deal of thought and study, a thorough knowledge of population and the requirements of the district in which each property is located.

Watch Operating Costs

Very closely associated with the subject of rentability is the cost of operation. It must be borne in mind that the occupancy which produces the greatest gross rent may not produce the greatest amount of net income because of excessive operating expenses attached to that occupancy. I recall a case in a location where the stores bring a fairly satisfactory rent, but the building has a second floor with two suites, and the only tenants available are of the poorer type who cannot pay more than $15.00 per month rent, but assuming that they can pay $15.00, the total income per month would be $30.00 if the suites were always occupied. Thirty dollars per month is less than the cost of operating the second floor of this building. The space was therefore offered to a commercial tenant at $50.00 per month, and the lease provides that the tenant shall be responsible for all interior maintenance work including repairs to windows, the owner being required only to maintain the exterior of the property which he would have to do in any event and for any ordinary type of occupancy, with the result that instead of a deficiency in the operation of this second floor, there is a very definite net profit. If this second floor had been rented for any figure from $10.00 per month up, the net income of the property would have been greater than renting the same space for living quarters, and in many cases the net income is greater if such space is kept vacant rather than using it for living quarters, under present conditions.

Many MBA members will be impressed with the comments of Mullenix in this article as to how the Apartment House Owners Association of Cleveland works to insure adequate credit information being available to all managers. Tenants failing to pay their rent are reported to the Association on blanks furnished for that purpose. The system apparently works for stability of income for owners generally.

I have in mind a case which has recently come to our attention involving a building which was originally a three-story apartment building set back from the street at a corner which has since developed into a fairly active business section. The apartment building had one suite on the first floor and two 5-room suites on each of the two upper floors. Eventually the business frontage was built up with a store building of one story only and the first floor of the apartment building was thrown into store space. It develops that the apartment building is producing about $300.00 per year in collectible rent and the operating cost of that section of the property is $825.00 per year. It is very evident that the apartment section of the building should be closed up and at a later date, if it is determined that it never will produce a sufficient amount of rent to operate it, the upper two stories should be removed. At the present time this particular property is producing in rent a sufficient amount to pay operating expenses, including taxes and insurance and in addition $2,145.00 per year to apply against $2,700.00 interest on the first mortgage. The saving to be effected by discontinuing the rental of the apartment space would add $525.00 and increase the amount available for interest to $2,670.00 per year, and a slight improvement in store business would therefore permit this property to pay interest and gradually build up the amortization requirements and eventually produce an equity for the owner.

Quite often a change in the use and setup of space will provide greatly increased net income. During the boom days it was possible to get retail buyers to go to the second floor of a building to buy merchandise, and I have in mind a case of an office building at a busy corner in Cleveland where 30′ of Euclid Avenue frontage was devoted to an entrance to the second floor store and the income produced was most satisfactory, but changing conditions have forced second floor merchants to the ground floor.

Recently we found it possible to lease the ground floor space formerly used as an entrance, for ground floor store purposes at three times the amount of the rent received for the same ground floor space, including the entire second floor of the building approximating 10,000 square feet of space, and the rental of this second floor is producing a sufficient amount to increase the income five times the income received before the change was effected.

Depend on Surveys

A manager must have available all the facts pertaining to a property and its use and surroundings if he is to create ideas which will place it on a maximum economic basis. An analytic survey of the property should be made, including photograph, floor plans, plot plan, detailed information regarding the physical makeup and condition of the property, an analysis of taxes, special assessments and insurance, full information regarding mortgages, rehabilitation requirements, description of space, occupancy and vacancy and analysis of income and expense and a general conclusion and eventually recommendations for the development of the property to its maximum use and production. These analytic surveys have proven invaluable, not only in the productivity of the property but in effecting tremendous savings in expenses.

There are many small items of expense in the operation of a property which can be eliminated or cut down and when consideration is given to the theory of capitalizing the net to secure an economic value, every excess dollar of expense for a year reduces the economic value of the property $10.00, using 10% as the factor for capitalizing.

It is therefore evident that small savings as well as large ones in the cost of operating a property are of extreme importance.

One saving which is comparatively small and yet of considerable importance is in the cost of furnishing hot water. It is not generally known except by experienced operators who have studied the problem, that in Cleveland gas for heating water costs twice the amount that coal costs, when coal is used in the ordinary small water heating boiler. In the larger properties a much greater saving can be made by the use of modern water heaters attached to heating boilers.

Credits and collections under existing conditions provide one of the most important links in the failure or success of any income property. Closely allied is the question of moral standing of tenants. In a code of standard business practice adopted by the Apartment House Owners Association of Cleveland, and made effective Jan. 1, 1934, the rules and regulations include the following:

Application for rental of apartment space must be made on a form provided by the Association.

No tenant is permitted to move into a building until he has properly signed the simplified form of lease prepared by the Association for a period of not less than 30 days.

The tenant is required to pay at least one month's rent in advance.

No free rent is allowed.

The lease does not apply, of course, to transient guests in furnished suites.

All rent must be computed either from the first or the 15th of the month, and be payable in advance.

A Plan That Succeeds

Each undesirable tenant or one who has failed to pay his rent must be reported to the Association on blanks furnished for that purpose.

A close arrangement has been worked out between the Cleveland Retail Credit Association and The Apartment House Owners Association of Cleveland and the Cleveland Association of Building Owners and Managers, making credit information available to the owners and managers of income properties.

We secure a credit report on every rental, have also checked previous landlords, where such has been possible, and have made other check-ups as to moral character, etc., with the result that our eviction cases have been reduced to a minimum. Too much care cannot be given the subject of credits and collections, as a bad credit resulting in loss of rent is worse than a vacancy or unnecessary operating expense, and has the same effect when figuring the economic value of the property.

Our system of collection is very simple. We do not have collectors, nor do we permit janitors to collect. Rents must be paid at our office on or before the fifth day after due, and if payment is not received by the fifth day an eviction notice is served on the sixth day and an eviction suit filed three days later. The effect is that our field men devote their time to management instead of following slow collections. No delinquent rent accounts are carried and occupancy has not suffered.

With the present rise in new construction, managing existing property becomes increasingly important for those doing this type of business. In this article, C. A. Mullenix takes you through all phases of successful property management. It is the first of several discussions on this important part of our members' business which The Mortgage Banker expects to publish this year.

In the discussion of rentability and best use the subject of rehabilitation and maintenance was covered briefly. The rehabilitation of any piece of improved property should be done only after careful study of the individual case, and I should like to emphasize the importance of correlating the factors of neighborhood and trend, the condition of the structure, the availability of tenants and a careful comparison of cost in its relation to prospective income on a well-studied and conservative basis.

Mention has been made of the reduction in economic values caused by excess expense. The greatest factor of excess expense is that item we are pleased to call taxes. When the depression began smart business men immediately placed their houses in order by reducing expenses and placing their businesses on an operating basis to meet new conditions. The same thing has applied to the operation of income real estate insofar as it has been possible to reduce expenses, but in the case of real estate there are items such as interest and other operating expenses which cannot be pared down. A change in values has made it possible to reduce insurance and some items, including labor, have been somewhat lower, but the extra demand on the part of tenants has not tended to reduce maintenance costs. It took public officials a long time to realize that they were not going to collect as much money in taxes as they had been accustomed to for several years, An attempt was made to keep taxes up, with the result that in many cases real estate owners could not pay, and as time went on there have been reductions in valuations and occasionally a reduction in rates, but I believe the usual trend has been rate increases from time to time.

It is time to place our public house in order and to do that we must have a new system of public expenditures and a new system of managing public business.

It is as important for the manager to follow the tax situation as it is to economize on other expenses.

Insurance is an item of expense, which should be watched very closely. We completed an analytic survey of 160 properties for one of the insurance companies, and it was found that on the average these properties were over-insured about 25%, meaning that premiums were being paid for protection which was not available. We found one case where $25,000.00 fire insurance was being carried on a building that could be reproduced for $12,000.00. The owner of that property was paying premiums on $15,000.00 insurance which he could not have collected in event of total destruction of the property. The over-insurance of $15,000.00 cost $52.50 per year which, capitalized at 10%, meant a reduction of $525.00 in the economic value of the property.

Last but not least, is the item of investment which must be carried. There are few income properties, comparatively, which are carrying operating expenses including taxes, and have enough left over to pay interest on the mortgages.

Biggest Item of All

In many cases we find that income properties are not producing a sufficient amount to pay the interest on the first mortgage. This presents one of the most difficult problems in the management of such properties, as the manager must give consideration to gradually working the income up to a point where it will pay interest and eventually to a point where it will pay amortization requirements. After that has been reached he must then plan on securing sufficient income to build the equity above the mortgage financing. This seems like a hopeless task as we view it today, and it is possible that there are many properties where the desired goal cannot be reached. In the case of commercial properties where the rent is dependent upon purchasing power, we have laid out a sched-

(Continued on Page 7, Column 1)

REVIEW of the NEWS

★ HIGHLIGHTS FROM THE PRESS OF PARTICULAR INTEREST TO MORTGAGE BANKERS

WALL ST. RUMOR SAYS RISK FIRMS CONSIDER PLAN TO INVEST DIRECT IN REAL ESTATE

Rumors current in Wall Street the last two weeks (but unverified at this writing) have been to the effect that certain of the large life companies are becoming actively interested in the plan whereby some of their funds will be used for direct purchase of real estate and large scale construction of both residential and mercantile buildings. They seem to feel, it is said, that such a plan would be good business for them as well as a stimulant to business prosperity. According to the *Wall Street Journal* they have in mind three principal points:

1. Purchase of land for construction of large scale housing developments, both single family and multiple family dwellings, which would be owned and managed by the insurance companies.

2. Construction of store buildings on specification from prospective long-term tenants.

3. Purchase of store properties from chain organizations and renting them to former owners.

It was also said that probably as much as two and a half billion dollars might be made available for these investments, although later reports declared such a sum "fantastic." As the first step in carrying out the plan, it is intended to ask insurance departments of key states, such as New York and New Jersey, to introduce bills in their legislatures amending the insurance laws to permit life companies to acquire land and buildings to be used chiefly for commercial and housing purposes in an amount equal to 10% of their assets. At the close of 1938, total assets of life companies in this country approximated $27,650,000,000.

At present, a temporary law is in effect in New York which permits life companies to construct and own large scale housing projects. No provision is made for the acquisition of commercial properties, however.

As far as housing is concerned, insurance companies, under the proposed plan, would be permitted to purchase land, finance construction of the building and manage the property instead of just supplying mortgage money as at present. In this connection, it is anticipated that some of this money would find its way into numerous slum areas, which lend themselves to reconstruction only along large scale housing lines and for which mortgage money is extremely difficult to find at present. Also contemplated are the erection of small family dwellings in suburban areas which the insurance companies would rent.

According to the *Wall Street Journal:* "It is maintained such a plan would release large amounts of merchandisers' capital now tied up in real estate and give a tremendous impetus to the flow of trade. In addition, it is asserted that it would simplify the operations of national retailers resulting in reduction in overhead which could be passed on to the consumer in the form of lower prices.

"Moreover, the transfer of such property to strong owners such as insurance companies would go a long way toward stabilizing realty values generally on a larger scale than would be possible otherwise.

"In support of the plan, the insurance company officials express the opinion that real estate today constitutes one of the soundest investments which could be made. They state that real estate bought with good judgment as to soundness of its locations and leased to sound business concerns at rental permitting a reasonable return on the investment would prove to be as satisfactory as investments in better margined evidences of debt, such as mortgages. In addition, such investments would show a greater average net return than would mortgage investments, it was stated.

"Moreover, according to these officials, ownership of real estate provides an opportunity for control and intelligent management of the property that is otherwise lacking in investments in real estate mortgages until the difficulties have been incurred and the property acquired through foreclosure.

"They also maintain that insurance companies are well equipped to purchase, maintain and manage such investments, having been given a liberal education along such lines during the depression.

"The insurance officials are aware that this phase of the plan might meet objections from some sources on the grounds that when real estate is bought the investment at time of purchase is 100% of value, whereas in purchases of evidences of debt a margin of safety is usually prevalent.

"Their answer to this is that there is a business risk and an element of speculation in every transaction whether it be the purchase of evidences of debt, equities or unencumbered real estate. The initial margin of safety in mortgages has not always forestalled a loss, they point out, nor could the absence of loss be guaranteed in every case of an investment in real estate. However, in the case of a mortgage investment, the lender cannot gain a profit by a value increase but always faces the risk that a decrease in value may dissipate the protecting margin of the owner's equity.

"As to whether investments in real estate would impair the liquidity of life companies, it is pointed out that if such investments were limited to 10% of total assets, the remaining 90% either would be readily convertible into cash or could be used as collateral for loans and would be more than ample to take care of any probable demands from policyholders.

"In drawing up the proposed plan, the life officials have been motivated by the dearth of adequate investment outlets for their ever-increasing idle funds. They have come to the conclusion that institutions no longer can rely upon a sufficient flow of evidences of debt, such as bonds, in the future to maintain balanced portfolios. Consequently, they believe that the time has come to liberalize investment statutes in the direction proposed. They are also convinced that less debt and more direct ownership would be beneficial to the nation's economy."

One prominent insurance company official in New York later made the statement that there might be some good in the suggestion but went on to declare that his company had never considered it officially.

SHOULD FHA MORTGAGE LIMIT BE FURTHER INCREASED?

FROM THE WALL STREET JOURNAL

For the FHA mortgage insurance program it must be said that it is no "handout" of public funds, unless the difference between the interest rate it renders available and that which borrowers could obtain in its absence can be regarded in that light. As to its administrative expense, Mr. McDonald says that in another year the system will be nearly or quite self-sustaining.

There is little reason, therefore, to object to the present increase in the volume of FHA insurance risks. Whether Congress should further raise the maximum or even remove a stated limitation from the law is a matter for careful examination. The government embarked on mortgage insurance as an emergency measure; it should retire from the field if private institutions can and will occupy it, affording adequate loan facilities at reasonable interest rates. There is no apparent obstacle to the formation on the initiative of lending institutions of one or more mortgage insurance corporations capable of carrying on the insurance business of the FHA after it has underwritten risks to the legal limit of three billions a year or more hence.

By that time the emergency aspects of the actual or prospective home owner's position will probably have passed away. It is not the government's business to coddle him forever.

WHAT THE DUTCH ARE DOING IN SUBSIDIZED HOUSING

By LEE E. COOPER

"What can be done to provide better living quarters in large cities for families with incomes of $1,000 to $1,800 annually?" A study of the system developed in The Netherlands to meet this very problem may offer some hope here. Today there are more than 1,000 private corporations in Holland organized as non-profit building societies realizing the benefits of public funds for housing.

Their projects range from attractive flats in the heart of Dutch towns to garden cottage colonies in the suburbs. In one cottage project more than 5,000 families are housed.

The houses are rented, not sold. Government loans amounting to 100 per cent of the cost of the housing are made available to authorized building societies, and families in the economic group just above those for whom subsidized homes are necessary are taken as tenants. Rentals are only slightly above those charged in subsidized houses.

The operations of these cooperative societies are subject at all times to the control and approval of the municipality in which the project is located, and the municipalities are required to guarantee prompt payment on all money advanced, including interest. Loans are being paid back by the cooperatives in fifty to seventy-five annual payments, and bear an interest rate only fractionally higher than that at which the government obtains the money.

U. S. GUARANTEE OF BANK LOANS WILL SOLVE NOTHING

By GEORGE OLMSTEAD

We already have in operation what is, in effect, an insured loan program, but it is not producing the desired results. The RFC stands ready to take up 90 per cent of industrial and business loans made by banks. And yet, according to Jesse Jones, chairman of the Reconstruction Finance Corporation, only about one bank in fourteen has indicated willingness to participate in this program.

This is not primarily the fault of the banks themselves, for they are not set up or prepared to make long-term loans. An ordinary commercial bank, accepting demand deposits, is usually in no position to make even 10 per cent of any considerable volume of five, seven, or ten-year loans. Consequently, any insured loan program based on the FHA model is doomed to failure for the same reason that is probably back of the reluctance of banks to co-operate with the RFC.

There is but one feasible answer if this ever more pressing need of little business is to be adequately met. That is a system of intermediate credit banks in which private capital and management would be combined with governmental capital and regulation.

VISIONS AMERICA REBUILDING 1000 TOWNS

By RANDOLPH EVANS

A thousand new cities and towns will rise on the plains and prairies of America during the next ten years to replace the outworn, outdated fire-and-disease traps that now house 60 per cent of our urban population.

The American house wears out too fast and costs too much to operate. As a result, our cities are deteriorating faster than we are replacing them. Obsolescence starts before a house is finished. The recent real property inventory conducted by the Department of Commerce in sixty-four representative American cities showed almost 60 per cent of all urban dwellings in the country were in need of repairs and 42,000 houses were reported unfit for use.

Of the 2,438,907 buildings examined, only 946,553, or less than 39 per cent, were found to be in good condition. About 560,000, or 15 per cent, were found to need major repairs and 1,081,385 units, or 44 per cent, required minor repairs.

Archaic street layouts, improper zoning and inadequate transportation facilities are combining with the physical deterioration and obsolescence of most urban dwellings to make the average city an unnaturally costly and unhealthy machine.

(Mr. Evans believes that the only solution is re-birth. America's leading cities must set a building pace for the rest of the country.)

ACCOUNTANTS HAD BETTER WATCH REAL ESTATE

By GEORGE V. McLAUGHLIN

Perhaps it may be breaking with traditions of accountancy to venture into the field of business advice and to employ outside experts, but my answer is that the traditions have already been broken and you might as well make the best of it. If you neglect the real estate field, it will not be many years before a small army of former employes—not to mention officials—of the HOLC, the FHA, the Federal Home Loan Bank, and the RFC will be offering to owners and holders of real estate many services which accountants might have offered. (Mr. McLaughlin went on to declare that "real estate accountants of the future may employ engineering firms." He said that "not only on the subject of depreciation, but also on the subject of necessary repairs and replacements, could the advice of competent engineers be very helpful.")

NEW PLAN IN HOME BUILDING SPRINGS UP IN CANADA

By M. V. CASEY

Canadian authorities have a plan to subsidize home building by selling building sites, assessed at $1,000 each, to home builders for $25 to $50 a lot.

The only stipulation to the bargain is that the site be improved immediately under the provisions of the Canadian housing act, which is patterned along the lines of our national housing act.

If the land is taken by a building contractor it is with the specific understanding that the saving in the land cost, which will range up to $975 a lot valued at $1,000, must be allowed to the buyer of the house constructed on the site.

The purpose of the land subsidy, as it may well be termed, is to create a demand for construction, find uses for unimproved land, increase the public revenue, provide better housing for Canadian families and promote general prosperity in the Dominion.

The possibility of attaining their objectives seems to be very favorable and, according to those associated closely with the enterprise, it will be a success.

"We are working on the principle that lower assessment will yield more revenue to the town. By aiding the homebuilder secure land on which to build at a nominal price there will be more building and consequently more revenue will accrue to the town than by maintaining high assessment valuation," an official said.

FARMING IS ONE INDUSTRY THAT CAN "TAKE IT"

By HARPER LEECH

One great sector of American life and enterprise is balancing its budget, apparently for keeps. Farmers by and large are paying off their debts faster than they are incurring new ones. That has helped to lower the costs of farming and cushioned the impact of lower farm prices so that real farm income has not shrunk in proportion to declining price levels. Low-priced crops have been low-cost price crops comparatively in recent years.

The farm mortgage debt has been shrinking for nine years. It was considerably below peak when spontaneous uprisings, threats and mock foreclosure sales stopped executions on judgments over a large part of the nation late in 1932 and early in 1933. This movement was followed by a flock of moratorium laws in the states, which may never again prove to be necessary, if the present debt-reduction movement continues.

The Bureau of Agricultural Economics figures farm mortgage indebtedness at $9,214,278,000 January 1, 1930. By January, 1935, it was down to $7,645,091,000, an average annual reduction of $313,837,000.

In the following three years the annual reductions were, respectively, $144,602,000, $245,688,000 and $172,665,000. Of course, a large part of the reduction in the first years after 1929 was due to foreclosure, but since 1933 normal debt repayment, as well as refinancing and readjustment, has been displacing foreclosure as the method of farm deflation.

Confidence of private investors in the farm future is evidenced by the fact that private leaders extended $653,265,000 worth of farm credit in the 12 months ended last April, compared with $642,017,000 in the preceding 12 months.

It is a mistake to speak of farmers as a "debtor group," because the farmer without a mortgage presumably owns more than he owes.

This condition of the majority of farmers helps to explain the general stability and efficiency of our farm plant today after the decline of land values since the war by $40,000,000,000.

More elaborately organized and financed industries could not have taken such a licking in reductions of capital values without wholesale bankruptcies, reorganizations, shut-downs and what not.

The bad part of the picture, of course, is that mortgage debt is so largely concentrated in certain regions, and these regions, as a rule, grow staple crops with prices fixed in the world market, which makes the occupation and its financial set-up especially sensitive to price changes. But in the financial picture, as a whole, the general effect today is cheering.

The MORTGAGE BANKER

PUBLISHED SEMI-MONTHLY BY THE

MORTGAGE BANKERS ASSOCIATION OF AMERICA

111 West Washington Street, Chicago

S. M. WATERS, *President* — FRANK C. WAPLES, *Vice-President* — GEORGE H. PATTERSON, *Secretary-Treasurer*

THE MORTGAGE BANKER is distributed free twice a month to members of the Mortgage Bankers Association of America. The publication is not available at newsstands or book stores. THE MORTGAGE BANKER will be glad to consider manuscripts designed for publication but will assume no responsibility for returning them. Opinions expressed in the publication are those of the authors or the persons quoted and are not necessarily the views of the Association.

GEORGE H. PATTERSON, *Editor*

FEBRUARY 1, 1939

ANOTHER INCREASE FOR FHA?

Within the next two or three months the FHA will again be in the news emanating from Washington. The outlook for new building continues favorable and it is more or less agreed that Congress will do everything possible to keep the trend moving along as it has been. Some of the Washington observers believe that there will be some FHA amendments made including a revival of modernization loans, and an extension of the existing-construction insurance beyond July 1. It is said that existing-construction mortgages will be included under the 90% insurance but limited to houses valued up to $6,000. As *The Mortgage Banker* has pointed out, the recent extension in the FHA total mortgage insurance limit is probably not the last one that will be requested. We refer readers to page 5 of this issue and the quotation from the *Wall Street Journal* on this subject. Some of the Washington writers think that FHA will ask Congress to authorize an insurance total of six billion dollars and that there may be considerable opposition in Congress on this point. This brings up a remark which we recently saw in a metropolitan newspaper. A spokesman for the real estate interests declared that "The National Housing Act, creating the FHA, was conceived not as an emergency legislation but as an aid to sound home ownership and to the stabilizing of home mortgage financing."

It had been our general impression that the FHA was created as an emergency agency. How successful its sponsors are in getting a six billion dollar insurance total may well reflect the official opinion in Washington today on this matter.

In the last issue of *The Mortgage Banker* we published a biographical sketch of C. A. Mullenix in our Board of Governors "Album Series," so there seems to be little left to tell about him in connection with his leading article in this issue.

In our section devoted to short quoted articles **Lee E. Cooper** writes on real estate subjects in *The New York Times* . . . **George Olmstead** is chairman of the American Federation of Little Business, widely publicized recently . . . and **Randolph Evans** is a prominent New York architect. . . . **Harper Leech** is a columnist on the *Chicago Daily News* and **M. V. Casey** writes real estate articles for the *New York Herald-Tribune*. **George V. McLaughlin** is a Brooklyn banker.

MULLENIX ON PROPERTY MANAGEMENT

(Continued from Page 3)

ule in the consideration of new leases which will, over a period of two or three years, reach the desired goal insofar as interest is concerned. Recently, however, we have been able to lift several commercial properties to a point where sufficient income is being produced at this time to pay operating expenses, taxes and interest, and we are hopeful that this is a sign of what may happen generally in the near future.

In closing it may be desirable to briefly mention some problems brought out by the analytic surveys and the solutions arrived at.

One property consisting of two buildings on a downtown corner, in a section removed two blocks from the main business section, was operating at a loss of $1,000.00 per year, and by tearing down the west building and leaving the corner building only, operating savings were effected which turned the annual loss into a profit of $3,000.00 per year.

In another case the removal of an old wood building to the rear of a brick building, effected a saving of 90% in insurance cost, producing a saving sufficient to pay one-half the interest on the first mortgage.

The change of occupancy in another property to meet neighborhood conditions resulted in a 100% increase in gross income.

Remodelling five-room suites into two and three room suites in an apartment building has doubled the gross income with very little increase in operating expenses.

In another case the complete rehabilitation of an apartment building, including only minor changes in suites, resulted in an increase in economic value of the building from $30,000.00 to $50,000.00.

In the case of one large property the problem faced was extremely difficult in that ground rent of $55,000.00 per year, taxes of $38,000.00 per year and operating expenses of $42,000.00, totaled $135,000.00, as fixed expenses, against an income of $60,000.00 per year.

This most difficult problem required the better part of a year to solve and has been worked out by attacking it from every angle.

A Case in Point

It was evident that the type of occupancy in the building would not produce a sufficient amount of income to carry and it was therefore determined that the tenancy of all stores in the building should be re-set; that all tenants except those of the very highest type should be removed from the upper floors and a new start made. To date the income has been increased to $120,000.00 per year with leases going up from time to time, and there is a sufficient amount of vacant space still available on upper floors to provide a considerable increase in income.

The ground is under ninety-nine year lease and it has been possible to effect a revamping of this lease, reducing the ground rent to figures which make it possible to carry the property and pay rent, taxes and other expenses. Operating expenses have been reduced to $37,000.00 and taxes to $33,000.00. This case presents some problems which the manager usually does not handle and in this particular case expert legal talent was necessary to complete the job.

The above are a few of many interesting problems which develop if the manager goes into them thoroughly and is suported with all the information necessary to work out each case.

★ A DOANE FORECAST FOR FARM LENDERS ★

An old price pattern is being retraced. This is strikingly emphasized by imposing the farm prices during and following the World War on a chart showing the trend of farm prices in the United States during and following the Civil War.

A graph similar to this was used by the late economist, Dr. George W. Warren, in a lecture at Missouri University about 1924. Prices, after having taken a precipitous fall from the 1920 peak, had worked back a short way. Few apparently had the courage to share the pessimistic outlook which this chart revealed. As we look back from this vantage point, we realize the extent to which farmers and bankers could have prepared themselves for the great depression during the eight years prices held on the 1921-1929 plateau before taking the fatal plunge following 1929. Attention is called to this chart primarily to emphasize the dependence that one needs to place in such statistics.

The foregoing graph is deserving of constant restudy and reference. It should help stabilize thought about probable future price levels of farm products.

Extreme price inflations follow major wars. The period of inflation is short compared with the prolonged period of deflation. The inflation episodes last only about three or four years, whereas the deflation period apparently runs 30 to 40 years.

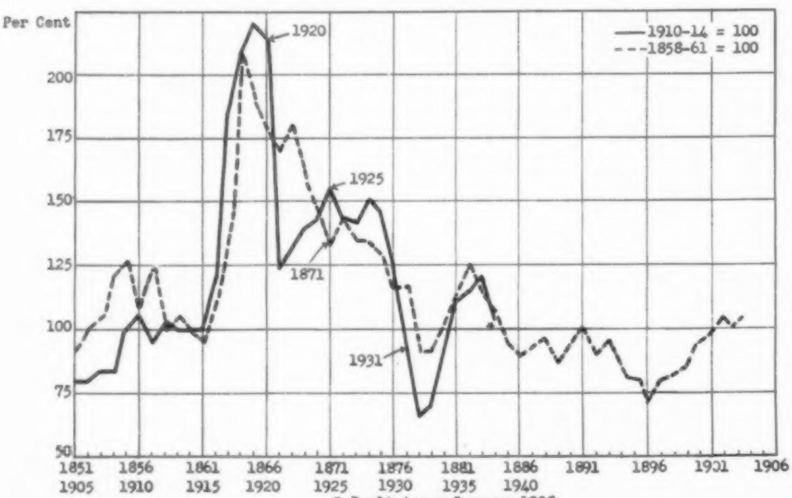
In this, the second article prepared for *The Mortgage Banker*, the Doane Agricultural Service points out that farm mortgage lenders will do well to reconcile themselves to the fact that the present farm price level is about what they may expect for the next several years—or "until the nation is excited into another major inflation period."

Two definite conclusions seem justified by the graph:

(1.) There is evidence that the present price level may be near the average to be expected for many years or until the nation is excited into another major inflation period.

(2.) There is the possibility that there may be 10 to 15 years more during which prices may work even lower than the present level.

FARM PRICES MAY NOT CHANGE RADICALLY FOR MANY YEARS



* Preliminary January 1938

INDEX NUMBERS OF WHOLESALE PRICES OF FARM PRODUCTS FOR TWO PERIODS, 1851-1904 AND 1905-37.
D. A. S. AGRICULTURAL DIGEST

The severe drought years and government crop control have been major causes in the upturn in prices during recent years. The drought was a temporary situation — the major crop control activities may already be past. Unless some panacea not now in sight is developed, it will be best to *follow a conservative course with plans closely attuned to the present farm price situation.*

Prices have far-reaching significance. The level of farm prices largely controls land values. There will be some recovery in land values as debts are further reduced and more farmers and businessmen accumulate surplus funds, but major increases in prices of farm land for the country as a whole cannot be expected until prices of farm products take the lead in a definite upward trend.

Farmers Making Money

The more capable farmers are again making money and will continue to do so during the years ahead. Efficiency and capable management will be rewarded with profits. It is not likely that farmers working at a serious disadvantage either as to quality of land, amount of equipment and finances, or limited managerial ability will be able to do more than hold their own or at most make very slow progress during the years just ahead.

Mortgage Bankers and others who are lending to farmers either directly or indirectly should realize that the difference between the security offered by good land as contrasted to fair or poor land will be increasingly emphasized in the years ahead. Likewise *managerial ability will more than ever be at a premium.* There is no longer the prospect of land value increases covering up the mistakes and financial losses of inefficient farmers.

COMING

In the next few issues of THE MORTGAGE BANKER we shall present another interesting and timely article on farm lending, one that dissects FHA, another on the matter of appraisals (a follow-up to Mr. Tyson's observations) and still another that seeks the answer to "Who Is the Lender?"

n-
es
at
y
r-
e
d,
e
e

e.
ls
y
e-
s-
or
e
d
e

n
lo
y
e-
at
t-
nt
ed
re
ke
st

re
n-
ce
od
ill
rs
ill
re
ue
nd